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Decision No. 90322 SEP 12 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of SOUTHERN CALIFORNIA GAS COMPANY to increase revenues to offset changed gas costs under its approved PGA procedures resulting from adjustments in the price of natural gas purchased from TRANSWESTERN PIPELINE COMPANY, EL PASO NATURAL GAS COMPANY and PACIFIC INTERSTATE TRANSMISSION COMPANY; to adjust revenues under the supply adjustment mechanism to reflect greater than anticipated collection of revenues due to increases in natural gas supplies; to adjust revenue requirements as a result of the operation of the tax change adjustment clause; to revise Section H of its Preliminary Statement; and to implement an air conditioning lifeline allowance.

Application No. 58724
(Filed March 2, 1979)

(See Decision No. 90322 for appearances.)

(Additional Appearances)

*Edward D. Novikoff, for Seniors for Political Action, protestant.
*Manuel Kroman, for City of Los Angeles, Department of Transportation; Wise & Nelson, by Brownell Merrell, Jr., Attorney at Law, for Lundberg Surveys, Inc.; and Harry Phelan, for California Asphalt Pavement Association; interested parties.

O P I N I O N

Southern California Gas Company (SoCal) seeks authority to increase its rates to provide additional gross revenues of $398,737,000 for the 12 months ending March 31, 1980 to offset the increased cost of purchased gas of $589,537,000 under its approved Purchased Gas Adjustment (PGA) procedures, to reflect a Supply Adjustment Mechanism (SAM) reduction in the amount of $201,658,000, and to utilize the Tax Change Adjustment Clause (TCAC) to recover revenue deficiencies of $10,858,000. SoCal also seeks authority to revise Section H of its Preliminary Statement and to implement a lifeline allowance for certain air conditioning load.

After due notice, public hearings were held before Administrative Law Judge N. R. Johnson at Los Angeles on April 26 and 27, May 1 and 2, and June 4, 11, 12, 13, 14, 15, 25, and 26, 1979, and the matter was submitted upon receipt of concurrent briefs due July 26, 1979.

Briefs were received from SoCal, the Commission staff, Valley Nitrogen Producers, Inc. (Valley), Union Chemical Division of Union Oil Company (Ammonia Producers), California Manufacturers Association (CMA), General Motors Corporation (GM), the city of San Diego (SD), and Southern California Edison Company (Edison).

Testimony was presented on behalf of SoCal by its manager of rates and tariffs, M. J. Douglas; by a research engineer in the Regulatory Affairs Department, R. L. Fowler; by a revenue service systems coordinator, R. L. Ballew; by a gas requirements supervisor in the Regulatory Affairs Department, E. K. Takemura; and by Eric Redd, the manager of alternate fuel reporting of Lundberg Surveys, Inc., a firm retained by SoCal. Testimony was

presented on behalf of Ammonia Producers by the deputy director of the California Department of Food and Agriculture, J. D. Scribner; by the president of Valley, J. H. Lindley; by the president of the Chemicals Division of the Union Oil Company of California, T. C. Henderson; by the director of the California Department of Food and Agriculture, R. E. Rominger; by a vice president of Valley, E. B. Lee; by the assistant director of the State of California, Department of Economic and Business Development, E. Stevenson; by the manager of development for the Union Chemical Division of Union Oil Company of California, J. J. Clarke; by the dean of the School of Agriculture at Cal Poly, Pomona, T. J. Cunha; and by the director of the Giannini Foundation of Agricultural Economics at Berkeley and professor of agricultural economics at Davis, University of California, B. D. Gardner. Testimony was presented on behalf of CMA by its director of energy and environmental quality, R. E. Burt; and on behalf of Edison by one of its regulatory cost engineers, L. J. Hedrick and by Sherman H. Clark, president of his own firm of consultants. Testimony was presented on behalf of the Commission staff by senior utilities engineers J. L. Fowler, Jr., and J. M. Peeples, by associate utilities engineer J. R. Barrett, by assistant utilities engineer S. K. Gokhale, by research analyst P. A. Grimard, and by Financial Examiner III R. A. Charvez.

I - GENERAL

The component parts of the matters to be addressed in this decision are as follows:

a. Synopsis of Decision
b. The Interim Increase
c. Tariff Revisions
d. Purchased Gas Adjustment Procedures
e. Supply Adjustment Mechanism
f. Tax Change Adjustment Clause
g. Consolidated Adjustment Mechanism
h. Rate Design

II - SYNOPSIS OF DECISION

This decision authorizes SoCal to increase its rates approximately $356,578,000 for the forecast year April 1, 1979 through March 31, 1980 to reflect a PGA increase of $564,048,000, a SAM decrease of $218,185,000, and a TCAC increase of $10,715,000.

Primary controversy on this matter focused on the apportionment of the revenue requirement increase to the various customer groups. The methodology proposed by the Commission staff of apportioning the commodity charges related to PGA on a uniform cents-per-therm basis and the commodity charges related to SAM and TCAC on a uniform percent-of-revenue basis was found to be reasonable and was adopted.

The present rate to the Ammonia Producers is temporarily continued on the basis that the margin between revenues from the sales and the average cost of gas was of benefit to the system as a whole. It is emphasized that rate relief for the Ammonia Producers requiring subsidization by other ratepayers is ultimately a matter to be resolved by the Legislature rather than this Commission.

Various tariff provision changes proposed by SoCal such as calculating PGA requirements in therms rather than Mcf, providing for compounding of interest in the PGA and Gas Exploration and Development Adjustments (GEDA) balancing accounts, providing uniform descriptive text for all of its commodity rate adjustment procedures and locating them in Section H of the Preliminary Statement, together with a summary table of base and effective rates and included adjustments, and the deletion of TCAC procedure statement limiting billing factor adjustments to nonlifeline usage were found reasonable and adopted.

The following illustrates that rates are increased as a result of this final opinion to produce an additional $106,578,000 in revenue to cover SoCal's costs for energy.

Amount revenue requirement increase to offset purchased gas expense	$ 564,048,000
Revenue requirement reduction resulting from the application of the Supply Adjustment Mechanism	$(218,185,000)
Revenue requirement increase for the Tax Charge Adjustment Clause	$ 10,715,000
Total revenue requirement increase authorized in this proceeding	$ 356,578,000
Revenue requirement increase authorized by interim Decision No. 90322, dated May 22, 1979	$ 250,000,000
Additional revenue requirement to be generated by rates authorized in this final opinion	$ 106,578,000

(Red Figure)

III - THE INTERIM INCREASE

The Commission staff's review of the application indicated that undercollections for the increases in the cost of gas were accruing at an average rate of approximately $31,000,000 a month necessitating, in the staff's opinion, immediate interim rate relief. As a result, early hearings on interim rate relief were held on April 26 and 27, and May 1 and 2, 1979. An interim increase of approximately $250 million on a forecast year basis was granted by D.90322 dated May 22, 1977. This decision provided a uniform increase of 3.075 cents per therm for all customers, except the Ammonia Producers, with the provision that monies collected for the interim increase were subject to refund and any revenue shortfall created by monies subsequently refunded as a result of any subsequent rate changes in this proceeding were to be reflected in the appropriate balancing account. The Ammonia Producers are subject to increase from the effective date of the interim increase should this Commission determine such an increase is reasonable.

IV - TARIFF REVISIONS

SoCal proposes the following additions, revisions, and/or relocations to its tariff schedules:

1. Locate all commodity rate adjustment provisions for the PGA, SAM, TCAC, and GEDA in Section H of the Preliminary Statement.

2. Modify the text of the various commodity rate adjustment procedures so as to provide a relatively uniform descriptive format in one location.

3. Provide a summary table showing base and effective rates as well as the various commodity rate adjustments contained in the effective rates.

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Provide that the PGA be calculated in therms instead of in Mcf, using net gas purchases available for resale for the 12-month period beginning with the applicable revision dates.

5. Provide an adjustment in SAM for franchise fees, uncollectible accounts expense (F&U) and company use related to sales variations.

6. Provide that PGA and GEDA balancing adjustments be modified to provide for compounding of interest as currently provided for in the SAM and TCAC procedures.

7. Delete statement in the TCAC procedure limiting the billing factor adjustment to nonlifeline usage.

8. Modify balancing adjustments for SAM, PGA, TCAC, and GEDA to include estimated amounts for the period between latest recorded data and the revision date.

9. Provide an air conditioning lifeline proposal.

10. Provide rate differential for those GN-3 and GN-4 customers with the capability of burning only No. 2 fuel oil and those that can utilize No. 6 fuel oil, petroleum coke, or coal.

SoCal's proposal to provide uniform descriptive text for all of its commodity rate adjustment procedures and locate them in Section H of the Preliminary Statement, together with a summary table setting forth base and effective rates, and various commodity rate adjustments included therein shoul enhance public understanding of these procedures and ass SoCal's personnel in the administration of its tariffs therefore, be adopted in the ensuing order.

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4. Provide that the PGA be calculated in therms instead of in Mcf, using net gas purchases available for resale for the 12-month period beginning with the applicable revision dates.

5. Provide an adjustment in SAM for franchise fees, uncollectible accounts expense (F&U) and company use related to sales variations.

6. Provide that PGA and GEDA balancing adjustments be modified to provide for compounding of interest as currently provided for in the SAM and TCAC procedures.

7. Delete statement in the TCAC procedure limiting the billing factor adjustment to nonlifeline usage.

8. Modify balancing adjustments for SAM, PGA, TCAC, and GEDA to include estimated amounts for the period between latest recorded data and the revision date.

9. Provide an air conditioning lifeline proposal.

10. Provide rate differential for those GN-3 and GN-4 customers with the capability of burning only No. 2 fuel oil and those that can utilize No. 6 fuel oil, petroleum coke, or coal.

SoCal's proposal to provide uniform descriptive text for all of its commodity rate adjustment procedures and locate them in Section H of the Preliminary Statement, together with a summary table setting forth base and effective rates, and the various commodity rate adjustments included therein should enhance public understanding of these procedures and assist SoCal's personnel in the administration of its tariffs and will, therefore, be adopted in the ensuing order.

There was no opposition expressed by any party in this proceeding to SoCal's proposal that the PGA be calculated in therms instead of Mcf, using net gas purchases available for resale for the 12-month period beginning with the applicable revision date, nor to the proposal that the PGA and GEDA balancing adjustments be modified to provide for compounding of interest as currently provided for in the SAM and TCAC procedures. Such proposals are supported on the record on the bases of uniformity and compatibility with Commission policy and procedures and will be adopted.

SoCal alleges that its proposed modification to SAM to reflect changes in F&U's and company use gas from test year levels, resulting from supply variation, is consistent with the intent of D.88835 dated May 16, 1978 in C.10621, our investigation into SAM. D.88835, supra, states: "Revenues from the sale of gas less the cost of that gas equals the gas margin..." (footnote 2, mimeo. page 6) and notes that supply volumes and gas costs, as contrasted with other expenses, fluctuate in such an unpredictable and dramatic fashion as to require offset treatment. It is SoCal's position that F&U's relate directly to revenues which, in turn, relate directly to supply and should, therefore, be included in the SAM revenue requirement computations.

According to SoCal, the adoption of its proposal concerning F&U's and company use gas will assure that overcollections related to lower than expected gas supply are refunded fully to the customer and undercollections related to higher than expected gas supply are recovered by SoCal. The mechanics of these over-and undercollections were demonstrated by an exhibit and testimony presented by one of SoCal's revenue service system coordinators. It was shown that without proposed changes the SAM adjustment did not accurately reflect the required F&U adjustments.

The staff's engineer accepted SoCal's inclusion of F&U's in the revenue requirements computations. He testified that his computations reflected the Pacific Gas & Electric Company's (PG&E) method, which applies F&U's against the cost of gas, rather than SoCal's method, but that it was his opinion that the overall results would be the same. He was unable to verify his computations within the time constraints of this proceeding and therefore, for the purposes of this proceeding, adopted SoCal's computations.

SoCal notes in its brief that the staff's audit report on this matter was extensive in scope and found no fault with SoCal's present procedures nor with the proposed F&U and company use tracking proposals.

In its brief SD argues that after consideration of the F&U issue D.88835, supra, omitted the inclusion of F&U from Appendix B which sets forth the manner in which SAM was to be computed. Under these circumstances, SD believes that the inclusion of F&U in the SAM computations should be effected, if at all, by reopening the generic SAM case and not in an offset proceeding such as this one. SD also notes that over 70 percent of the SAM overcollections are due to sales to GN-5 and wholesale customers and that there are no F&U's attributable to those two classes. SD further argues that SoCal maintains that it must increase its revenue requirements because of F&U when its PGA is in an undercollection status and at the same time reduce excess SAM revenue by a F&U factor item when the account is in an overcollection status. To SD, this represents the best of both worlds and should not be allowed by this Commission.

The record supports SoCal's proposed procedure. Consequently, it will be adopted for the purposes of this proceeding. Should further review reveal procedural inaccuracies, appropriate adjustments will be made in the next offset proceeding.

SoCal's proposal to delete the TCAC procedure statement limiting billing factor adjustment to nonlifeline usage to provide flexibility in future rate design decisions is meritorious and will be adopted. It should be noted, however, that the deletion of such statement in this proceeding merely permits flexibility into the rate design and in no manner mandates TCAC adjustments to lifeline rates.

SoCal alleges that the purpose of its proposal to include estimated amounts for the period between the time of the latest recorded entries in the accounts and the revision date is to make the balancing account adjustment amount as current as possible and thereby minimize distortions that would occur if estimates were not used.

The primary purpose of the commodity rate adjustment procedures is to provide relatively prompt rate changes to reflect recorded data differing substantially from general rate proceeding adopted results of operation. The utilization of estimated prospective data as a basis for computing the commodity rate adjustments would tend to defeat this purpose and will not be permitted. We will, however, adopt the Commission staff's recommendation that the latest month recorded amounts, available prior to the revision date, be used with the provision that any unaudited amounts will be subject to adjustment as determined by the staff accountant's audit for the next succeeding filing.

Both SoCal's and the Commission staff's original rate proposals provide for air conditioning lifeline proposals as directed in D.89710 dated December 12, 1978 in SoCal's A.57639 for a general rate increase. Subsequent to the filing of this application, however, such allowances were effected by an advice letter filing and need not be further considered at this time.

SoCal initially proposed that Schedules GN-3 and GN-4 be bifurcated into two rates whereby those customers capable of burning residual fuel oil, petroleum coke, or coal as an alternate fuel would be billed under a lower rate than those customers who did not have the capability of utilizing such an alternate fuel. At the time of the filing of the application, SoCal had not completed a survey to determine which of its customers were capable of burning such lower cost alternate fuel and, therefore, proposed a single unit rate therm at a level comparable to the lower price of No. 6 fuel oil (0.5 percent sulphur maximum). SoCal's witness subsequently testified that after the preparation of the application with the accompanying original prepared testimony, he came to the conclusion that SoCal should continue the policy of pricing all GN-3 and GN-4 customers at the competitive price of No. 6 fuel oil (0.5 percent sulphur maximum) for two reasons: (1) the Federal Energy Regulatory Commission (FERC) will be releasing regulations on the incremental pricing portion of the Natural Gas Policy Act (NGPA) and SoCal should wait until these are issued before effecting a differential rate; and (2) the costs of converting a boiler to have the capability of burning No. 6 fuel oil are relatively minimal and SoCal would, therefore, have few, if any, customers taking service at the higher rate and would experience a corresponding decrease in realized revenues.

As to SoCal's abandonment of a differential rate proposal, the staff does not agree with SoCal's argument that few customers would take service at the higher rate because of low conversion costs for installing No. 6 oil burning equipment. Staff contends that this position is based purely on the speculation of SoCal's witness and not on any study of the PG&E system where such differential rates are in effect.

With regard to SoCal's other argument, we take official notice that the FERC has proposed regulations to implement the incremental pricing provisions of the NGPA. The proposed regulations in FERC Docket No. RM79-14 concern the mechanism for passing through certain increased well-head costs of gas from the interstate pipelines through the distribution companies to the designated industrial customers (large boiler fuel users). These higher costs would be assessed to the incrementally-priced users as a surcharge on their utility bills measured by the difference between the gas rate charged by the distribution company and the alternate fuel cost ceiling in the region set by the FERC.

The proposed regulations in FERC Docket No. RM79-21 prescribe the manner in which alternate fuel cost data would be collected by the federal government and how the incremental pricing ceilings would be calculated from this data and published for use in determining the surcharge. These proposed rules utilize a multi-tier approach, basing the alternate fuel cost ceilings on the cost of No. 2 oil, No. 6 low sulfur oil, and No. 6 high sulfur oil in the region. The drafters rejected arguments of some industrial customers, pipeline and distribution companies in the early stages of the rulemaking proceeding that the ceiling should be set solely at the level of No. 6 oil.

Over the last few months, the FERC held a number of hearings and accepted written comments on the proposed rules in both dockets. This phase of the rulemaking proceedings now has

been completed and issuance of the final rules is pending. The rules must be in place on the anniversary of enactment of the NGPA (November 9, 1979), and the pass-through of incremental costs must begin as of January 1, 1980.

In its brief the staff notes that the one material difference between the basic staff rate design recommendation and the rates established by this Commission for PG&E is that the staff did not recommend differential rates based on No. 2 and No. 6 fuel oil costs, respectively. The staff engineer did, however, present two alternate rate proposals which provide such differential rates should the Commission wish to adopt such rates on a statewide basis. The Commission has adopted a policy of two-tier--No. 2 and No. 6 oil--alternate fuel cost pricing for PG&E. (See D.89316 and D.90424.) We view this policy as consistent with the National Energy Act and plan to extend it on a statewide basis. Because inadequate data was developed on the record in this proceeding, we will not at this time authorize differential rates for SoCal. However, SoCal will be required to complete further studies of its customers' fuel-burning capabilities and practices as well as to make quarterly filings of alternative fuel prices in its service area. This information shall include, but not be limited to, the delivered price per barrel, lot size, Btu content, and sulfur content. Separate rate schedules for No. 2 and No. 6 fuel oil alternatives will be established by tariff filing as soon as feasible pursuant to decisions on subsequent rate increase applications. Such applications will be required to differentiate rates for these classes.

V - PURCHASED GAS ADJUSTMENT PROCEDURES

SoCal seeks authority to offset increases in the cost of natural gas purchased by it and its affiliate, Pacific Lighting Service Company, from El Paso Natural Gas Company (El Paso), Transwestern Pipeline Company (Transwestern), Pacific Interstate Transmission Company (PITCO), and California sources during the period April 1, 1979 through March 31, 1980 to offset the effect of past adjustments in natural gas purchase costs which became effective during the period June 1, 1977 to April 1, 1979, and to eliminate the current balance in the PGA balancing account. The total PGA revenue requirement set forth in the application was $589,537,000. The Commission staff witness adjusted this amount to reflect reductions in the El Paso and Transwestern rates ordered by FERC on March 30, 1979 and PG&E cost increases reflected in its A.58469 to derive SoCal's PGA revenue requirement of $564,048,000. This revenue requirement reflects forecast year purchases of 789,521 MMcf of gas at an average price of $1.9219 per Mcf. This PGA amount will be adopted for the purposes of this proceeding.

VI - SUPPLY ADJUSTMENT MECHANISM

SoCal is requesting authority to apply SAM to reduce its rates by the amount of revenues collected in excess of the gas margin of $584,129,000 adopted in D.89710, supra, and D.90105 dated March 27, 1979 on SoCal's A.57639 for a general rate increase, and to further reduce its rates to reflect a projected overcollection of gas margin during the 12-month period ending March 31, 1980.

Both SoCal and the Commission staff have revised estimates of the SAM revenue requirement to reflect updated data. The staff's engineer stipulated to SoCal's revised showing set forth in SoCal's Exhibit 32. The revised SAM revenue overcollection is set as $218,185,000 and reflects total sales of 8,295,775 M-therms. This amount will be adopted for this proceeding.

VII - BALANCING ACCOUNT AMORTIZATION PERIOD

The staff proposes that the PGA and SAM over- or under-collections be amortized over the forecast period, i.e., a 12-month amortization period, and SoCal proposes that such over- or under-collections be amortized over the six-month period between filings. SoCal's method has the advantage of precluding dramatic build-ups of under- or overcollections that could occur during long periods of consistent under- or overcollections utilizing the staff's method and will, therefore, be adopted.

VIII - TAX CHANGE ADJUSTMENT CLAUSE

The TCAC revenue requirement was computed by the staff to be $10,715,000 and consists of a balance on December 31, 1978 of $9,703,000 plus accruals from January 1, 1979 through March 31, 1979 of $856,000 plus additional franchise tax and uncollectible accounts expense of $156,000. This figure will be adopted.

IX - CONSOLIDATED ADJUSTMENT MECHANISM

Ordering Paragraph 2 of D.88835, supra, states:

"2. In its initial filing for rate change under the Supply Adjustment Mechanism procedure, each utility shall include a proposal for consolidating the Supply Adjustment Mechanism with its purchase gas adjustment clause."

In compliance with this paragraph SoCal proposed a consolidation of the SAM- and PGA-proposed procedures as an extra step while maintaining identification of all costs associated with gas purchases separately from other costs. In essence the procedure provides for the separate computation of the gas cost adjustment amount and the supply adjustment amount and the combining of these two separate amounts as a separate and extra step in the procedure.

As previously discussed, we will adopt SoCal's proposal to locate all of its commodity rate adjustment procedures and a summary table of base and effective rates in Section H of the Preliminary Statement. Such a procedure results in the consolidation of all of SoCal's commodity adjustment procedures, including PGA and SAM and, therefore, automatically results in full compliance with the above-quoted Ordering Paragraph 2 of D.88835, supra.

X - RATE DESIGN

General

Testimony and/or exhibits on rate design were presented into evidence on behalf of SoCal, the Commission staff, Ammonia Producers, CMA, and Edison. It is, therefore, obvious that the apportionment of any authorized increases to the various customer groups and the appropriate design for the various rates within the respective customer groups were the most controversial issues raised in this proceeding.

The total adopted revenue requirement to be allocated among the various customer groups as a result of interim D.90322 and this final opinion is $356,578,000, computed as follows:

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PGA	$564,048
SAM	(218,185)
TCAC	10,715
Total	$356,578

Position of SoCal

SoCal's initial proposal was to spread the increased revenue requirement to customer classes by increasing wholesale rates on the system average cents-per-therm increase; to establish the GN-5 rate applicable to steam generating plants at the comparative price of No. 6 fuel oil (0.25 percent sulphur maximum); to base the GN-3 and GN-4 rates at a price competitive with the low identified price of alternate fuels so as not to provide an economic incentive to leave the SoCal system in favor of alternate fuels; and to allocate the residue of the revenue requirement by a formulary approach based on the present relative differences between the residential blocks. The testimony indicated that even at present rates a number of GN-3 and GN-4 customers whose combined

annual consumption of natural gas totals approximately 55 billion cubic feet of gas or in excess of 35 percent of the total GN-3 and GN-4 customers' consumption have voluntarily switched to alternate fuels for prolonged periods of time. According to SoCal, it is therefore essential that it experience no further loss of GN-3, GN-4, and GN-5 customers. The loss of such customers, according to the record, could result in increasing the additional revenue requirement for the remaining customers from its present level of 4.619 cents per therm to as much as 6.475 cents per therm. While SoCal would prefer to have the necessary rate increase spread on the basis of its original proposal, it expressed a willingness to accept the staff's proposed rate spread in the hope of expediting rate relief.

In response to the issue raised by the Commission staff and other parties relating to the justification for purchasing Canadian gas at a cost higher than its system average rates SoCal states that it is following a Commission-established policy of acquiring maximum available quantities of gas to reduce to the lowest possible level the need for California to convert from direct use of gas to the direct or indirect use of coal and oil, and also that such gas is needed to assure continuity of service to higher priority customers in times of highest demand.

SoCal is against establishing a precedent for creating special rate classes based on the relative social usefulness of different end products or services and asserts that the Ammonia Producers' showing is not sufficiently convincing to justify the establishment of such a precedent. In addition, according to SoCal, the establishment of such a special rate would violate the

prohibition against discriminatory rates found in Public Utilities Code Section 453 and quotes the following in its brief:

> "'It is only unjust or unreasonable discrimination which renders a rate or charge unreasonable; and a utility may, without being guilty of unlawful discrimination, classify its customers or patrons on any reasonable basis, as according to the purpose for which they receive its service or product, or the quantity or amount received, or the different character of the service furnished, and, subject to the general requirements of reasonableness . . . make separate rates for each class or group, even though there is but one customer included therein.'" (Emphasis by Court.) (City and County of San Francisco v Western Air Lines, Inc. (1962) 204 Cal App 2d 105 at 140.) .

SoCal argues that for there to be any reasonable basis on which to grant the Ammonia Producers' request, this Commission would have to find that any gas increase at this time would drive them out of business. According to SoCal, the Ammonia Producers' testimony that a 20 percent increase in the price of ammonia fertilizer would only decrease the demand by 3 percent, means that the two remaining producers could absorb the increased gas cost proposed in this proceeding and still market 97 percent of the fertilizer they now sell at a 20 percent higher price; without any immediate threat that foreign ammonia producers would erode their captive 40 percent share of the total California market.

SoCal believes that the staff's proposed solar incentive rates for natural gas should be more appropriately considered in ongoing separate investigations on this subject such as OII 13, OII 42, and C.10150.

Position of Commission Staff

As previously stated, the staff's position was presented through testimony and exhibits introduced into evidence by two senior utilities engineers, one associate utilities engineer, one assistant utilities engineer, one research analyst, and one Financial Examiner III. Such testimony and exhibits included presentations on the basic allocation of revenue increases to customer groups together with alternate rates based on Edison's March 1979 cost of No. 2 and No. 6 fuel oil and the proposed incremental pricing under the NGPA of 1978, an exhibit on gas supply for test year 1979 sales, solar incentive rates for natural gas, the current cost of No. 2 and No. 6 fuel oil, marginal cost pricing, federal participation in state regulatory hearings, and the results of a staff audit report in PGA, SAM, and TCAC.

Based on Platt's Oilgram costs reported for the first trading day of each month for U.S. tank car-truck transport lots, the staff's witness derived a cost from 31.20 to 31.96 cents per therm for No. 6 fuel oil and from 33.66 to 36.92 cents per therm for No. 2 fuel oil. Due to the fluctuations in actual prices paid for alternate fuels, the staff believes that a 5 cent per therm differential between the cost of fuel oil and natural gas will prevent the loss of existing commercial-industrial customers from the SoCal system and recommended a commodity rate for Schedules GN-2 through GN-5 of 25.506 cents per therm. The staff's basic rate proposal reflected a uniform cents-per-therm allocation for PGA and GEDA revenue requirements and equal percentage of revenue bases for the allocation of SAM and TCAC revenues. These basic criteria were used for the residential class as a whole, but a differential of approximately 125 percent was maintained between the proposed lifeline commodity rate and the proposed system average rate of 25.502 cents per therm.

The staff does not at this time recommend the adoption of either the alternative rate based on Edison's March 1979 cost of No. 2 and No. 6 fuel oil or the alternative based on incremental pricing under the NGPA of 1978, as such alternatives establish a higher commodity rate for Schedules GN-3 through GN-5 and could conceivably result in the loss of market to the detriment of the system as a whole.

The staff also proposed a discount of 5 cents per therm for the lifeline volumes of residential customers and the first 50 therms for nonresidential customers as an incentive for the installation of solar and/or space heating systems by natural gas customers. The proposed rate is admittedly not 100 percent cost-effective but would provide some incentive for the installation of solar equipment. It is noted that in the case of residential customers the proposed rate would provide for selling gas at substantially below the estimated forecast year unit cost of purchased gas.

One of the staff's witnesses testified that pricing gas at its marginal cost would make the user aware of the high current cost of procuring new gas and behave accordingly and contrasted such pricing with the rolled-in cost of gas which may tend to encourage consumption because of the lower averaged prices derived from a period when gas was less expensive. He further testified that it is easier to anticipate the advantages of marginal cost pricing than it is to apply the theory and listed such disadvantages as the speculative feature of pricing gas on long-term estimated costs, the distortion of clear price signals by unforeseen and unplanned fluctuations and adjustments, the potential conflict with already-established priorities which favor residential customers and those commercial and industrial

customers who cannot readily switch to alternate fuels, and the collection of revenues in excess of the Commission-established revenue requirements. This witness also listed six alternate gas sources with 1979 cost estimates ranging from a low of $4.05 a decatherm for In-Situ Coal Gasification to a high of $4.42 a decatherm for steam-reforming butane and partial oxidation of residual oil.

One of the staff witnesses testified that when the creation of a new rate class is under consideration by a state regulatory agency, FERC may intervene and participate and that the application of a differential rate between customers who had the capability of burning No. 2 or No. 6 fuel oil, as contrasted to those who could burn only No. 2 fuel oil, could have possibly been construed as the establishment of a new rate class permitting FERC intervention in the current proceeding.

The staff also raised the regulatory issue of SoCal's policy of purchasing Canadian gas by way of the Northwest Pipeline Corporation and PG&E at a wholesale price higher than the retail price SoCal charges its lowest priority customers. According to the staff, it is SoCal's supply policy to buy all of the gas that is available while pricing the gas to GN-3, GN-4, and GN-5 customers so as to preserve a market sufficient to absorb the gas supplies. Such a practice increases SoCal's revenue requirement more than $26 million over the amount needed were this relatively high priced gas not purchased. The staff believes this Commission should consider whether its ratemaking mechanisms may be operating to modify a utility's operating practices and the test of reasonableness. Following is the staff's position on these issues:

"These issues are characterized as latent, because the staff has not directly raised any issue as to the reasonableness of SoCal's supply policy in this proceeding. This acquiescence is based in large part on the Commission's established rate design policy. As will be shown below, any departure from existing rate design policy calls into question the reasonableness of SoCal's supply policy.

"Simply stated, SoCal's supply policy is to buy all of the gas that is available, while pricing the gas to priorities 3, 4, and 5 customers so as to preserve a market sufficient to absorb the gas supplies. (Tr. 74.) The ratemaking consequences of this policy are illustrated by the testimony that elimination of the Northwest Pipeline Canadian supply from the gas balance <u>reduces</u> the test year revenue requirement by more than $26 million (Tr. p. 732), with resulting increased curtailment of only priorities 3, 4, and 5. (Tr. p. 740.) Although no calculations have been made as to the PG&E supply (Tr. p. 740) the effect would apparently be similar, though of smaller magnitude.

"The basic ratemaking question raised by these transactions is as posed by staff counsel: 'Would you buy this gas if there were no balancing account treatment?' (Tr. p. 742.) The answer is cautious: 'We would have to come in more often for general rate increases to see that our costs are covered.' (Tr. p. 743.) Since SoCal for several years has sought general rate increases as often as possible, this is a qualified endorsement of the general policy. The point for the Commission to consider is that its own ratemaking mechanisms may be operating to modify a utility's operating practices and the test of reasonableness. If this is intended, the Commission should so state." (Staff brief, p. 2-3.)

The staff raises an issue directly related to the rate design issues we must address herein. As long as gas rates for interruptible customers are set at a price that at least recovers

SoCal's cost for the incremental high cost quantities of gas to serve these customers, there is no harm to SoCal's ratepayers as a whole because the cost for this higher priced Canadian gas is recovered from those interruptible customers who use it. For this reason we adopt rates for interruptible customers that are high enough to recover SoCal's cost for the higher priced Canadian gas; this concept will be discussed further in the subsequent discussion on alternative fuel cost as it relates to rate design.

SoCal defends its position of purchasing the relatively higher priced Canadian gas on the two bases of assuring continuity of service to higher priority customers in times of highest demand and of following this Commission's policy as set forth in D.89177 on A.57626 et al., relating to liquified natural gas as follows:

> ". . . To this end, we are pursuing a policy of furthering acquisition of maximum available quantities of gas, to reduce to the lowest possible level the need for California to convert from direct use of gas to either direct or indirect (for electric generation) use of coal and oil." (Mimeo. page 86.)

We are hardly in a position to fault SoCal for following our dictates. It should be noted that although the Canadian gas is presently the highest priced gas presently purchased by SoCal, all indications are that all future additional supplies will be still higher.

In its brief the staff argues that the CMA rate design recommendation is without merit and quotes from D.90424 dated June 19, 1979 in PG&E's A.58469 and A.58470 for offset relief wherein CMA proposed similar rates as follows:

> "CMA's proposal is not consistent with our recently adopted policy to price gas at a level approximately the same as alternate fuel and is not consistent with the Natural Gas Policy Act soon to be implemented and will not be adopted." (Mimeo. p. 15.)

The staff argues that this criticism remains valid today and is sufficient to dispose of the matter. In spite of this position, however, the staff further argues that CMA's position that gas costs be allocated among customer classes on a rolled-in, fully allocated average basis was repudiated by this Commission fully four years ago as evidenced by the following quote from D.84721 dated July 29, 1975 in PG&E's offset A.55687:

> "In simple terms, the highest rates should be paid by the lowest priority users, because the highest priced gas is for their benefit - without that gas those users would have to find alternative fuels." (78 Cal PUC 534)

According to the staff, a low price for gas to those customers with alternate fuel capability will cause a shift from oil to gas reducing the demand for oil and thereby depressing oil prices and forcing the price of gas further downward for lower priority customers, with an accompanying potential harmful revenue requirement contribution effect for high priority customers.

The staff also notes that CMA's rate design proposal is predicated on the staff's estimated level of sales which, according to the staff, amounts to an admission that CMA's rate design proposal will achieve no more conservation than the staff's proposal.

With respect to Edison's proposal that the GN-5 rate be priced 20 percent less than the price of alternate fuel, the staff argues that the calculation of the 20 percent factor is made on a fully allocated, sunk-cost basis that has no relationship to avoidable costs or reality, and these are not costs that should be borne by the gas ratepayers while electric ratepayers enjoy an economic benefit when cheap gas is substituted for expensive oil.

The staff also opposes the Ammonia Producers' proposal of no rate increase at this time on the following bases: (1) there is no ratemaking justification for the proposed discriminatory rate; (2) the displaced gas will always be sold at a higher price resulting in a more positive revenue contribution to the utility; (3) two of the six plants that closed were operated by Occidental Chemical, the same entity that imports Russian fertilizer, and cannot be characterized as plants lost to foreign competition; (4) a large portion of the market has been displaced by Union Chemical Production from Kenai, Alaska; and (5) the establishment of the rate differential would place this Commission in the center of social ratemaking establishing priorities based on a judgment of social values and financial hardship.

Position of Ammonia Producers

The position of the Ammonia Producers was presented into evidence through the testimony and exhibits of nine previously listed witnesses and is as follows:

1. Valley is a California cooperative with approximately 5,000 farmer-shareholder members with ammonia-producing plant located in El Centro. Before the cost of gas increased to its present high level, Valley also had plants at Hercules and Helm, but the high cost of gas forced their closure.

2. There were originally eight ammonia plants in California which could produce approximately 115 percent of California's needs. The remaining two plants can produce approximately 40 percent of California's needs, and the Union Oil of California (Union) plant at Kenai, Alaska can produce approximately 28 percent of California's needs. The bulk of the remaining needs are supplied by Russia and Mexico.

3. A gas rate increase at this time would force the shutdown of Valley's remaining plant, and the special cryogenic tanks and equipment required to ship ammonia are in limited supply so that the shutdown of the El Centro plant could create a shortage of ammonia for several years until the requisite transportation equipment could be manufactured.

4. The price of gas has increased from 5.2 cents per therm in 1974 to its present price of 21.2 cents per therm, an increase of more than 400 percent.

5. The present price paid for gas by the Ammonia Producers exceeds the cost of gas in the rate proposed for wholesale customers in this proceeding.

6. The proposed increase would cost the Ammonia Producers more than $5 million a year.

7. Present ammonia prices are artificially depressed by the Russian and Mexican producers in an attempt to corner the market. At some point in time the price of ammonia will increase as demand increases and the Ammonia Producers will then be willing and able to absorb appropriate increases in the cost of natural gas.

8. The price of ammonia is uniform throughout the state. A special rail rate was established from Texas to California which permitted Russian and Mexican ammonia to be delivered to California at a low rate.

9. Union takes service from a transmission main, and its personnel are technically competent to resolve operating problems, so SoCal is not required to send personnel on trouble calls. The lack of distribution facilities and elimination of trouble calls to the premises result in lower unit costs to serve Union than most other customers. Union also noted that its plant operates seven days a week, 24 hours a day, except when shut down for maintenance during January, the time of SoCal's peak demand.

10. The California Department of Food and Agriculture is alarmed over the reduction in ammonia production in California because nitrogen fertilizer is a very important component of agricultural production,and it is vital that a least part of the ammonia be produced in California so that all the supply is not dependent on long lines of transportation or overseas shipments.

11. Nitrogen fertilizer is the single, most important component of added crop nutrients.

12. The timing of the application of nitrogen fertilizer is critically important, and the farmer cannot wait two weeks or a month for delivery of nitrogen fertilizer.

13. Ammonia production is so vital to California agriculture that the Commission should set a gas rate that will make it possible for the two remaining plants to stay in production. It was noted that the rate of productivity advance in California since 1950 has been much greater than in the nation as a whole and that it is generally accepted that the most important contribution to such an increase in agricultural productivity has been the increased utilization of fertilizer. Consequently, it is of utmost importance and in the public interest that the two remaining ammonia plants continue in business.

14. The two ammonia producers are, with the exception of wholesale customers and steam electric generating plants, the two largest customers on SoCal's system.

15. The revenue per therm received by SoCal for gas sold to the Ammonia Producers exceeds the average cost of such gas purchased by SoCal; the retention of these two large customers is of overall benefit to the SoCal system.

16. The principle of limiting the increase to a large customer in order not to lose the customer is as applicable, if not more so, for the Ammonia Producers as for any of SoCal's other customers.

Position of CMA

CMA's presentation was made by its director of energy and environmental quality, R. E. Burt. The purpose of his testimony was to provide for the consideration of the Commission's CMA's views regarding the appropriate method of spreading SoCal's increased revenue requirement to the various customer classes. The exhibit sponsored by this witness includes comparisons of relative rate increases to customer classes during the 1970's, cost of service analyses at present and various proposed rates, a summary of essential considerations for any rate spread he would deem reasonable, and proposed rates he recommends be approved by this Commission for SoCal. Mr. Burt notes that starting in 1975, this Commission deviated from its past practice to spread required increases on a uniform cents-per-therm basis for all classes and instead increased the residential class, by a much lower relative percentage than other classes with the result that present lifeline rates, which comprise 60 percent of SoCal's annual residential sales, are so low that SoCal loses money on every lifeline therm sold. He notes that for the period January 1, 1976 to April 1, 1979 the large industrial customers' rates were increased by 190 percent as contrasted to

the system average increase of 101 percent and the residential class increase of 49 percent. According to CMA, such rates deceive residential customers into believing gas is a relatively inexpensive commodity while at the same time discouraging efficient and useful uses of gas by other customer groups.

Mr. Burt also testified that natural gas prices should be kept as low as possible to all customers and should not be increased to match the price of alternate fuels. In his opinion the cost of alternate fuels should serve as a vehicle for the design of rates only when it is necessary for the utility to price gas at less than its fully allocated cost in order to market the product.

Utilizing the above-enumerated rate design concepts, Mr. Burt designed CMA-recommended rates which reflect the following:

a. Residential rates are increased substantially to provide at least a zero rate of return for lifeline quantities and a definite contribution to SoCal's return for the balance of the residential class.

b. The commodity rate for each schedule was established to meet the full cost of service for that schedule when combined with the customer and/or demand charge.

c. The residential shortfall from the above rates was partially recovered by adding 1 cent per therm to the indicated GN-1 full cost of service rate.

d. The GN-5 commodity rate was set by the cost of service to that customer class.

The rates developed, as described above, were then compared to the rates proposed by SoCal and the Commission staff. CMA believes this comparison indicates that neither the staff's nor SoCal's proposed residential rates generate revenues sufficient to provide

any positive contribution to SoCal's earnings, as contrasted to CMA's proposed rates, that would provide a healthy contribution to return while maintaining a substantial subsidy for lifeline usage.

In its brief CMA notes that much of the transcript of this proceeding is taken up by discussion concerning the plight of the Ammonia Producers and argues that this Commission's pricing policies created the situation which could have been avoided had rates been properly established in the first place. CMA further argues that present rates are unlawfully discriminatory as evidenced by the loss to be experienced by sales to residential customers, as contrasted to a pre-tax return of 23.5 percent for the GN-1 through GN-4 customers and the pre-tax return of 59.8 percent for the GN-5 customers. CMA contrasts such returns with the positive returns historically earned by the residential customer class for the period 1972 to 1976.

CMA further argues that NGPA simply does not provide a basis or justification for setting rates at the level of alternate fuel costs and that such a pricing policy is unlawful in that it results in some customers having to pay rates grossly in excess of cost in order to provide subsidies for other customers who are provided service at rates so low that the utility fails to recover even its costs exclusive of return and income taxes.

Position of Edison

Testimony and exhibits on behalf of Edison were presented into evidence by one of its regulatory cost engineers in its Revenue Requirements Department, L. J. Hedrick, and by the president of Sherman H. Clark Associates, a company specializing in energy and resources economics research.

The testimony of L. J. Hedrick set forth his belief that SoCal's proposed Schedule GN-5 is unduly discriminatory; that conservation is not furthered by the "alternate fuel" concept; that the NGPA of 1978 exempts electric utilities from the incremental pricing scheme; that the inclusion of demand-related costs in Schedule GN-5 exacerbates the discriminatory nature of the proposed rate; and that a rate schedule that recovers the bulk of allocated fixed costs through the variable component of the rate is improper. He compared the after-tax rate of return as shown by SoCal for GN-5 customers of 32.1 percent, as compared to 2.9 percent for residential, 19.6 percent for Schedules GN-1 through GN-4, 9.8 percent for the city of Long Beach, and 4.2 percent for San Diego Gas & Electric Company in support of his position that Schedule GN-5 is unduly discriminatory. Such a return for this rate schedule, according to the testimony, contrasts sharply with the historical relationship of the interruptible steam electric plant customer to SoCal's other customer classes. This witness further testified that SoCal admits that the proposed rate is not designed to achieve conservation and that Edison receives gas at the lowest priority with no demand rights and, therefore, should have all demand-related costs excluded from the computations leading to the design of proposed Schedule GN-5. Consequently, according to Edison, the inclusion of fixed costs in the variable commodity charge of the rate not only results in excessive billing to Edison but, because of the wide fluctuations in sales, causes severe fluctuations in the level of recovery of allocated fixed costs.

The purpose of S. H. Clark's testimony was to evaluate for the record Edison's risks of relying on spot purchases of low sulphur heavy fuel oils and the related risk factors that should be included in the rates for steam electric generating plants. This witness concluded that Edison would be very ill-advised to rely on spot purchases to obtain necessary fuel oil and testified that the extremely wide fluctuations in the supply of gas to Edison necessitates back-up oil supply arrangements. Such arrangements are very costly and, consequently, in his opinion, the charge for gas to Edison should not exceed 80 percent of the cost of alternate fuel oil. The 20 percent reduction below alternate fuel costs espoused by this witness consists of additional costs incurred by Edison to adjust for the wide fluctuations in demand, such as the interest on the cost of oil inventory (10 percent), the cost of additional storage facilities (4 percent), and additional heating and pumping costs, higher oil prices for more flexible take-or-pay contract provisions, and loss on resale of fuel oil as required (a total of 6 percent).

In its brief Edison notes that as a result of an increase in the price of oil during the proceeding, SoCal revised its rate proposal to increase its proposed rates to GN-5 customers and decrease proposed residential customers in spite of the fact that the change in the price of fuel oil did not alter the costs to serve the respective customer classes and that SoCal's policy witness did not concern himself with the disparity in rates of return by customer class as long as the proposed rate to those customers who have alternate fuel burning capability was set below the value of service.

Edison argues that the evidence in this matter indicates that SoCal could market its gas to all its customers were the rates to be based on fully allocated cost of service.

Edison indicates that during the periods involved in this matter, only for wholesale customers and GN-5 customers did recorded sales exceed estimated sales, and argues that SAM rate reductions should redound only to the benefit of those customer classes generating such overcollections. On this basis the GN-5 fair share of the March 31, 1979 SAM balance would be approximately $40,000,000 instead of SoCal's proposed allocation of $8,452,000 to such customers.

Position of GM

In the final days of hearing SoCal's witness noted that the rate levels in the staff's primary rate design proposal were essentially those that would have resulted had SoCal's basic rate proposal been updated. Consequently, for the purposes of its rate design discussion, GM assumed that SoCal's proposed rates coincided with the staff's proposed rates and focused its rate design discussion on the staff's and CMA's proposals as the basic alternatives presented for Commission consideration in this proceeding. In addition to the comprehensive rate design issues, GM commented on the staff's incremental pricing concept and solar incentive rate, and the Ammonia Producers' request for special rate relief.

GM argues that the staff's rate design proposals should be rejected. It supports CMA's proposal which, according to GM, is consistent with the guidelines laid down by the California Supreme Court in California Manufacturers Assn. v Public Utilities Comm. (1979) 24 Cal 3d 251 and California Manufacturers Assn. v Public Utilities Comm. (1979) 24 Cal 3d 263.

According to GM, the staff's ratemaking methodology is tantamount to a mechanical exercise wherein the rates for lower curtailment priority customers are fixed in relation to available alternate fuel price information, lifeline rates are determined as a percentage of the system average rate, and the remaining schedules are determined on a residual basis. GM argues that such an approach comports neither with the several ratemaking criteria often cited by the Commission in past proceedings nor with the statements of the California Supreme Court as to the manner in which the Commission is to determine whether rate disparities for different users reach the plateau of arbitrary or discriminatory action. GM further asserts that the California Supreme Court requires this Commission to consider cost of service evidence and issue findings reflecting the Commission's evaluation of any deviation from cost of service in relation to the particular policy objective professed to be served by such a departure and notes that the staff's rate design witness acknowledged that he did not look at cost of service information for his rate design. It states that the remedial measures proposed by CMA to correct unjustifiably discriminatory rates by substantial increases to the residential rates and provide for revenue stability are necessary.

With respect to incremental pricing, GM notes that the lack of merit in the incremental pricing concept is patently clear in the staff witness' testimony, exhibits, and responses to cross-examination. In spite of such evidence, however, according to GM, it is suggested that SoCal's lower priority industrial gas customers should pay the entire cost of SoCal's incremental supplies. Consequently, GM suggests that the resolution of these conflicting policy elements is a matter deserving priority consideration.

GM argues that the entire solar discount rate idea is a possibility and nothing more. It notes that no studies or review of studies were made by the staff witness on such key matters as the impact of the program on SoCal's revenues, the reduction of SoCal's peak load, the effectiveness of this particular program, and the number of customers that might qualify for the special solar energy rate. It further notes that according to the record, the carrying charges of the customer's investment would amount to about $35 a month to obtain gas rate savings of approximately $2.50 to $3 a month and urges a comprehensive, in-depth study of the concept and further consideration of the matter.

Consistent with the policy adopted by the CMA membership at large, GM offers no comment on the merits of the Ammonia Producers' case. It does, however, note that the form of rate relief requested by the Ammonia Producers in the interim phase of the proceeding and by the early witness in the general hearing was exemption from any increase for a six-month period with the rates to be again reviewed at that time. In addition, GM notes that the Ammonia Producers' witness, after commenting on the similarities between SoCal's cost to serve its wholesale customers and the cost to serve the Ammonia Producers, stated that he would hope that at the end of six months the Ammonia Producers would have enough improvement in their economic position that they could absorb the same system increases that apply to wholesale customers rather than the other GN-2 customers.

GM is fully supportive of the cost of service rationale cited by the Ammonia Producers as one of the grounds for the rate relief it seeks. GM argues that it is abundantly clear from the record that the revenues received from SoCal's industrial customers, including those served under Schedule GN-2, substantially exceed the full cost of service. Under these circumstances, it is GM's position that the truly appropriate form of rate relief is the across-the-board adjustment to SoCal's rates proposed by CMA and as set forth in D.89710 dated December 12, 1978 on SoCal's A.57639 for a general rate increase. GM also believes that should this Commission conclude that the unique situation of the ammonia industry warrants relief over and above whatever rate adjustments may be granted across-the-board, the proper form of such additional rate relief would be the originally requested exemption from a rate increase for a six-month period.

Discussion

The remaining ratemaking issues to be resolved in this proceeding are as follows:

1. The appropriate increase for residential lifeline and nonlifeline rates.
2. Ratemaking factors.
3. Ammonia Producers' rates.
4. Solar incentive rates.
5. SoCal's gas purchase policy.

Residential Rates

As previously stated, the staff's basic rate proposal reflects a uniform cents-per-therm allocation for PGA and GEDA revenue requirements and equal percentage of revenue bases for the allocation of SAM and TCAC revenues. Within the residential class, the staff proposed a larger increase for nonlifeline quantities than lifeline quantities. The result is that the staff proposes

that the lifeline rate be increased approximately 90 percent of the nonlifeline increase so as to maintain approximately a 125 percent differential between the proposed lifeline commodity rate and the proposed system average rate.

CMA's recommended residential rates reflect a substantial increase from present rates so as to provide a pre-tax rate of return of 8.8 percent as compared with a system pre-tax return of 12.8 percent and an after-tax return of 7.5 percent, as compared with a system after-tax return of 9.5 percent. Such a rate design is predicated on CMA's assertion that the residential class is heavily subsidized by other customer classes, a situation which, according to CMA, should be corrected in this proceeding. It is axiomatic that a relatively greater increase to the residential class will result in a lesser increase to the nonresidential classes. The lesser increase to the nonresidential customer classes is, according to CMA, mandatory because the other proposals in this proceeding which base the commodity cost of Priority 3 through Priority 5 customers on the cost of alternate fuel result in these customers having to pay unjust and unreasonable rates grossly in excess of the cost of service in order to subsidize other customer classes. GM fully supports CMA's proposed rates stating that the remedial measures encompassed by the proposed rates are absolutely necessary if unjustifiably discriminatory rates are to be eliminated and revenue instability is to be contained within reasonable bounds.

The staff, with respect to CMA's recommended rate design made the following valid observations:

> "CMA's rate design recommendation is simplistic and naive in its treatment of the residential customer. It purports to be conservation

oriented (Ex. 30, p. 14), but puts the highest per therm increase on the residential lifeline sales (Ex. 30, Table 3). Since lifeline allowances represent an average minimal usage for essential purposes, these sales would seem to be relatively inelastic, and the least likely to produce conservation savings.

"CMA's rate design calculation contradicts its stated conservation purpose by adopting the same levels of sales to the various classes as utilized by SoCal. (Tr. p. 1074.) This amounts to an admission that its rate design proposal will achieve no more conservation than the staff's. If residential conservation does occur, there will be a substantial revenue deficiency as gas that would be sold at high rates in the nonlifeline residential tiers will be sold instead for much lower rates to low priority customers. (Tr. p. 1075.) Such conservation would produce a direct substantial benefit to industrial customers, but CMA is unwilling to share any of that benefit. (Tr. p. 1079.) And such conservation would result in a balancing account revenue deficiency. (Tr. p. 1978.) How does CMA propose to reward the conservation? With higher rates for residential customers. (Tr. p. 1081.) There's nothing to commend in this recommendation." (Staff brief, p. 6.)

As discussed in the following section, the cost of service is only one of several ratemaking factors historically considered in the allotment of revenue increases to various customer groups. Accordingly, assuming CMA's cost of service contentions are correct, the serving of one customer group at below system average cost of service with the result that other customer groups pay more than the fully allocated average cost of service when it is to the overall benefit of the system as a whole is not new and has been done many times in the past. However, according to the record, the residential rates proposed by the staff and accepted

by SoCal will produce a positive rate of return, and does not result in a subsidy of the residential class by commercial and industrial users and contended by CMA and GM. Under these circumstances, we will adopt the staff's recommended residential rate proposal, adjusted to compensate for the temporary continuation of present rates for the Ammonia Producers.

Rate Design Factors

This Commission has a long history of considering such rate design factors as cost of service, historical rate structure, competitive conditions, value of service, stability of revenue, and characteristics of use in arriving at its apportionment of rate increases to the various customer classes as typified by the following quotations from D.84902 in PG&E's A.54279, A.54280, and A.54281 for a general rate increase and D.84902 in Edison's A.52336 for a general rate increase:

> "Over the years a generally accepted set of attributes of a good rate structure has evolved. These are:
>
> Production of the revenue requirement.
> Simplicity and ease of understanding.
> Stability of revenue.
> Fair apportionment of cost of service.
> Discouragement of wasteful use.
> Encouragement of efficient operation of system.
>
> "In the attempt to design rates possessing these attributes, various factors are usually considered. These are:
>
> Cost of service.
> Historical rate structure.
> Competitive conditions.
> Value of service, including 'what the traffic will bear'.
> Adequacy of service.
> Customer acceptance."
>
> (Re Pacific Gas & Electric Co. (1975) 78 Cal PUC 638, 727) and

> "The standard liturgy in revenue apportionment calls for the consideration of rate history, characteristics of use, rate zoning, stability of revenue, comparison with other utilities, cost of service, value of service, and competitive considerations, all leavened with the application of judgment and experience. These considerations boil down to four: cost of service, competition, characteristics of use, and public benefit." (Re Southern California Edison Company (1971) 72 Cal PUC 282,308)

The evidence, statements, and/or arguments advanced by CMA, Edison, and GM indicate their position that the cost of service rate factor is of predominate importance and that the value of service rate factor, the only other rate factor discussed by these parties, should be utilized only as justification for providing service below the full cost of service for the overall benefit of the other ratepayers. All three parties quote from California Manufacturers Assn. v Public Utilities Comm. (1979) 24 Cal 3d 251 and 263 as establishing guidelines requiring justification for departing from the cost of service to establish rates. It is, therefore, appropriate to quote the following excerpts from this decision relating cost of service to rate discrimination:

> "Petitioners recognize the commission's power to make economic classifications, characterizing it as 'a discretionary exercise of its quasi-legislative function'. (6) This court stated in Wood v. Public Utilities Commission (1971) 4 Cal. 3d 288, 294-295 /93 Cal. Rptr. 455, 481 P.2d 823/: 'The commission must fix rates that will provide a reasonable return on the utility's investment, and in doing so it has wide discretion to make rate classifications that reflect a broad and varied range of economic considerations. /Citations./' Within its 'wide discretion', it follows that the commission may properly consider prospective shortages of natural gas and the need to conserve that commodity.

"Petitioners do not deny the need to conserve energy may be considered by the commission in establishing rate spread. Rather petitioners urge that the commission abuses its discretion whenever it sets rates for one class of users below cost of service and, to provide sufficient overall revenue for the utility, sets rates for others above cost of service. Because the utility's revenue requirement is based on cost (expenses plus capital return) and because customer rates are designed to provide the revenue requirement, it is apparent that consideration by the commission of any factor other than cost will result in some customers paying less while others necessarily pay more than cost. Having discretion to consider factors other than cost, the commission must necessarily create some disparity among users. Whether such disparity reaches the plateau of arbitrary or discriminatory action can only be determined upon a more adequate record and sufficient findings following remand."

For many years, this Commission has used the cost of alternate fuel to establish a rate ceiling for the interruptible customer rates in order to preserve the market for the overall benefit of the utility and its ratepayers by authorizing interruptible customers' rates at the competitive level of alternative fuel well below the full allocated cost of service for such customers. Needless to say, under those circumstances, neither CMA, GM, nor Edison accused this Commission of abusing its discretion by setting the rates for the interruptible customer below the full cost of service and the rates for the noninterruptible customer above the full cost of service to provide the revenue requirement necessary to permit the utility to earn its full authorized rate of return. It is equally not an abuse of discretion for this Commission to continue to apply value of service (among other considerations) as evidenced by the cost of alternative fuel as a basis for establishing the level of rates for the interruptible customer even though such a level is now above the fully allocated cost of service.

SoCal's gas mix comes from several sources, with different prices. The highest priced gas SoCal purchases is required to serve the lowest priority customers. Accordingly, the application of the strict average system cost of service as the sole criterion for pricing gas to SoCal's low priority customers is without merit. Further, it is necessary for low priority customers both to bear the cost of the incrementally higher priced gas SoCal purchases to serve them and to receive a realistic price signal as to the current cost of energy. By receiving such a price signal these large customers can reassess their usage requirements and have a true incentive to tailor their operations to the most efficient use of energy. The existing rate design carries that theme into practice for the residential customer class as well, by pricing gas such that a high amount of residential use by a customer results in a substantially higher monthly bill; the goal is that those users likewise have an economic incentive to reassess their energy CONSUMPTION practices and take measures to conserve. Accordingly, pricing gas for Schedules GN-3, GN-4, and GN-5 at the price of alternative fuel as a means of encouraging efficient energy use is not a concept applied only to the class of industrial users. It is part of our overall energy pricing policy intended to encourage conservation of a precious natural resource.

We price gas at lower unit rates for residential customers because they have limited ability and resources to convert to alternative fuels (they are accordingly high priority gas customers); also, being the highest priority users, the least expensive (and most desirable) gas SoCal purchases logically serves such customers.

Another aspect of alternative energy pricing for gas relates to the price signals that industrial customers attach to their products through prices. Low cost energy supplies mask the effects of energy intensive inputs on manufactured goods. This in turn encourages consumers in their use of these products. It is more appropriate that the cost of gas to industrial customers be similar to the costs of unregulated (or OPEC regulated) energy sources so that consumer goods reflect the true impact of using energy costs.

Finally, with respect to objections to pricing gas for low priority customers at or close to the alternative price of alternative fuel, the staff observes as follows concerning the pricing of the incremental quantities of gas necessary to serve such customers:

> "The purchase of this discretionary, high priced gas imposes on the Commission a high standard based on the case of <u>Northern California Power Agency v. PUC</u>, 5 Cal 3d 370 (1971), because of the effect on competition. Since this gas is sold exclusively to customers with alternate fuel capability it is important that the price of the gas not be set so as to allow an unfair advantage to the gas utility versus oil companies. The sale of this gas displaces fuel oil, reducing demand for oil and depressing oil prices." (Staff brief, p. 5.)

The commodity rate of 25.506 cents per therm proposed by the Commission staff for Schedules GN-2, GN-3, GN-4, and GN-5 is approximately 5 cents a therm less than the cost of alternate fuel as developed by the staff engineer testifying on alternate fuel costs. Due to fluctuations in the actual price paid for alternate fuels, the staff considers its proposed rate will not provide an economic incentive for SoCal's commercial-industrial customers to burn alternate fuels. SoCal agrees that the staff's proposed rate design should not result in the loss of any significant number of its customers to alternate fuels and is willing to accept the staff's proposal. Under these circumstances, we are persuaded as to the reasonableness of the staff's proposed GN-2 through GN-5 rate schedule and will, therefore, adopt it for this proceeding. Furthermore, the staff's methodology of apportioning the PGA revenue requirement on a uniform cents-per-therm basis and the SAM and TCAC revenue requirements on an equal percent-of-revenue basis appears reasonable at this time and will be adopted for the residual revenue requirement after calculation of GN-2 through GN-5 revenues at 25.506 cents per therm.

As previously indicated, we will extend the policy of two-tier, No. 2 and No. 6 alternative fuel pricing in subsequent decisions. The staff's recommended rate level is placed in effect pending more complete information from SoCal and the staff in subsequent applications.

CMA notes that NGPA provides for a lump sum surcharge to be levied on defined boiler fuel customers up to the approximate level of their alternate fuel costs. Under these circumstances, it is argued that alternate fuel costs are actually ceilings on surcharges required by the NGPA and not the minimum rates for boiler fuel service. However, it is further noted by CMA that the provisions of NGPA are to be implemented in the future by a rule to be adopted by FERC and that no such rule has been adopted to date.

Edison points out that Section 206(c)2 of NGPA specifically exempts electric utilities from its incremental pricing requirements and is therefore inapplicable in setting the level of rates for Edison. Edison argues that cost of service is the proper basis for the design of all rates, including those for steam electric generating plants, and that the utilization of the cost of alternate fuel as a basis for establishing rates for Edison results in its paying substantially in excess of the cost of service. According to Edison, paying rates substantially in excess of costs subsidizes the gas residential customer class and provides a competitive edge to SoCal to provide service to those customer appliances which can be served by either gas or electricity. With respect to this latter contention, it might be noted that, in general, gas appliances have historically had cheaper utility rates than comparable electric appliances, i.e., ranges, water heaters, space heaters, etc. Currently effective gas and electric rates may have changed with respect to the relative level of cost differential but have not changed with respect to the direction of the competitive edge. As previously summarized, one of Edison's witnesses presented evidence indicating that it was imperative for Edison to obtain firm commitments for adequate fuel supplies to function properly and that the extremely wide fluctuations in the supply of gas necessitates costly arrangements to economically utilize unanticipated supplies of gas. Under

these circumstances, according to the testimony, the charge for gas to Edison should not exceed 80 percent of the cost of alternate fuel oil. In the recent past, the cost of gas was sufficiently below the cost of alternate fuels that Edison could pay the costs associated with using unanticipated supplies of gas and still realize an economic advantage from burning such gas. With the cost of gas to the electric utilities predicated on the exact cost of alternate fuel, the burning of unanticipated supplies of gas could conceivably be economically harmful to an electric utility, because oil to be delivered under long-term contracts would not be taken and liquidated damage clauses (or underlift charges) would be assessed to the utility. Under these circumstances, Edison's position that the commodity cost of gas should not exceed 80 percent of the indicated cost of alternate fuel for Edison is not unreasonable. It is noted, however, that 80 percent of the indicated cost of alternate fuel for Edison closely approximates the 25.602 cents per therm adopted for Schedules GN-2 through GN-4. Consequently, we will also adopt 25.602 cents per therm as the commodity cost for gas on Schedule GN-5.

Edison argues that since only the wholesale and electric steam generation classes of customers have contributed to the SAM over-collections, these two customer classes should divide the rate reductions created by such overcollections between them. Such a method of reduced revenue requirement allocation does not adequately reflect the allocation of increased revenue requirement incorporated into the initial rate design adopted in the general rate proceeding. Had the sales forecast in that proceeding been accurate, the apportionment of the authorized revenue increase to the wholesale and steam electric generation customer groups would have differed substantially from the adopted results and might have approximated the overall results presently derived by the apportionment of the SAM revenue reductions on a uniform percent-of-revenue basis. Accordingly, Edison's recommendation on implementing the SAM rate reduction will not be adopted.

Ammonia Producers' Rates

As previously discussed, SoCal and the Commission staff believe that the Ammonia Producers are not entitled to any special rate considerations, CMA believes that if the Ammonia Producers' contribution to revenue in excess of the cost of gas is greater than the additional resulting increase in rates to the remaining customers, the Ammonia Producers' load should be retained, and GM is fully supportive of the cost of service rationale cited by the Ammonia Producers as one of the grounds for the rate relief that they seek. Opposition to the granting of the requested special rate treatment is based on alleged violation of the prohibitions against discriminatory rates, the failure on the part of the Ammonia Producers to prove their inability to absorb increased gas costs, and the establishment of a precedent that will irrevocably place the Commission in the center of social ratemaking.

It is of interest to note that SoCal and the Ammonia Producers utilize the following authority to support their diametrically opposite conclusions:

> "'It is only unjust or unreasonable discrimination which renders a rate or charge unreasonable; and a utility may, without being guilty of unlawful discrimination, classify its customers or patrons on any reasonable basis, as according to the purpose for which they receive its service or product, or the quantity or amount received, or the different character of the service furnished, and, subject to the general requirements of reasonableness . . . make separate rates for each class or group, even though there is but one customer included therein.'"
> (San Francisco v Western Airlines (1962) 204 Cal App 2d 105, 140)

According to SoCal, the only reasonable basis to grant the Ammonia Producers' request would be a finding that a gas cost increase would drive them out of business and, according to the Ammonia Producers, a reasonable basis for a separate rate classification exists because it is necessary to preserve a California industry vital to California agriculture and the general welfare of the State.

A number of factors distinguish the Ammonia Producers from other customers and customer groups:

1. They are the two largest customers served by SoCal on Schedules GN-1 through GN-4;

2. They are the only customers on SoCal's system that utilize natural gas as feedstock to produce a product in competition with foreign competitors;

3. They are the only customers where the cost of gas represents a major portion of the product cost (approximately 65 percent);

4. They receive gas directly from transmission lines 24 hours a day, seven days a week, all year long, except when the plant shuts down for maintenance in January, the month of SoCal's greatest demand; and

5. They produce a product of unique importance to California agriculture.

The testimony proffered by officers of the Ammonia Producers indicates that any increase in the cost of natural gas until the price of ammonia rises sufficiently to support such an increase will result in the closure of the two remaining ammonia

plants in California and create a shortage of nitrogen fertilizer in California for at least a three-year period with severe detrimental effects on the agricultural and general economy of the State. The evidence of record also indicates, however, that California agriculture is dependent upon ammonia fertilizer and that the Ammonia Producers currently supply 40 percent of the States requirements. In view of this dependence and assuming it is true that other sources could not supply California needs for at least 3 years, it would appear that the Ammonia Producers should be able to increase their price to offset the increased cost of gas proposed in this proceeding. There is no evidence in the record that the users of ammonia, the California farmers, would refuse to buy California produced ammonia if the price was increased.

Even if the Ammonia Producers could not increase the price of ammonia to cover the increasing cost of gas we would find it difficult to rationalize the continued maintenance of a special gas rate. We recognize the importance of ammonia to California agriculture, and the importance of this industry to the California economy, but many other industries are also important to our economy. The plight of the Ammonia Producers is not a simple result of escalating gas costs, but rather a combined effect of increasing gas costs and lagging market prices. This type of financial squeeze is not uncommon in free markets. Increasing costs of utility services undoubtedly affect the competitive position of many businesses and industries important to the California economy in addition to the Ammonia Producers. To isolate each such industry

for special analysis and consideration would be a task far beyond the capabilities of this agency and would place undue reliance upon market fluctuations in commercial product prices.

For these reasons we have decided to rescind the temporary supplemental service rate authorized in Interim D.90322. This action, together with our adopted rate for schedule GN-2, will increase rates for Ammonia Producers by 20.7 percent. As a result, the price of ammonia should increase by no more than 13.5 percent (65 percent of 20.7 percent).

We recognize that ammonia is important to the California economy, and that our decision to terminate special rate protection for the ammonia industry may cause problems of adjustment. Whether this issue is of sufficient importance to warrant special consideration not afforded to other businesses and industries is a decision best left to the Legislature. Our interim decision in this proceeding informed the Ammonia Producers of our conviction to this effect, and gave them six months to seek a legislative solution. In order to provide further time to prepare for transition into the generally applicable rates, rescission of the temporary supplemental service rate authorized in Interim D.90322 will be effective on January 1, 1980.

Solar Incentive Rates

The cross-examination of the staff witness sponsoring a solar incentive rate indicated a lack of supporting data upon which to base a competent evaluation of the impact of such a rate on SoCal's sales and revenues, the effectiveness of the proposed rate in inducing solar installations, the number of customers that might qualify for the rate, and the cost-effectiveness factor of the proposed discount rate. Consequently, we will not authorize such a rate at this time. Furthermore, the subject of solar incentive rates shall be raised and addressed not later than in SoCal's next general rate proceeding. We are anxious to consider solar incentive rates and expect such a proposal to be made in future proceedings which would extend such incentives to industrial and commercial as well as residential customers.

The following tables illustrate the adopted cost for the PGA, the adopted SAM revenue requirement, and GEAC revenue requirement for the 12-month forecast period; and the adopted sales and revenue requirements for amortization of the PGA and SAM balancing accounts over a six-month period.

TABLE 1-A

Southern California Gas Company
ADOPTED RATE DESIGN
Through the Period Ending 12/31/79

(Excluding GEDA)

Line No.	Class of Service	Sales (Mth)	Revenue at 4/1/79 Rates (M$)	FCA Revenue ($/th)	FCA Revenue (M$)	SAM Revenue ($/th)	SAM Revenue (M$)	TCAC Revenue ($/th)	TCAC Revenue (M$)	Total Increase ($/th)	Total Increase (M$)	Total Increase %
1	Residential											
2	Lifeline 2/	1,977,777	453,912	.05410	106,998	(.01340)	(26,502)	.00134	2,650	.04204	83,146	18.3
3	Nonlifeline	1,289,023	279,784	.06012	77,496	(.01488)	(19,181)	.00149	1,921	.04673	60,236	21.5
4	Subtotal	3,266,800	733,696	.05648	184,494	(.01398)	(45,683)	.00140	4,571	.04390	143,382	19.5
5	Commercial-Industrial											
6	GN-1	1,051,459	242,985	.05648	59,386	(.01439)	(15,128)	.00144	1,513	.04353	45,771	18.8
7	GN-2	822,946	172,190	.06807	56,018	(.02599)	(21,388)	.00128	1,053	.04336	35,683	20.7
8	GN-3	706,322	147,849	.06807	48,079	(.02599)	(18,357)	.00128	904	.04336	30,626	20.7
9	GN-4	286,376	59,901	.06807	19,494	(.02599)	(7,443)	.00128	367	.04336	12,418	20.7
10	GN-5	1,096,982	229,436	.06807	74,672	(.02599)	(28,511)	.00128	1,404	.04336	47,565	20.7
11	Subtotal	3,964,085	852,361	-	257,649	-	(90,827)	-	5,241	-	172,063	20.2
12	Wholesale	934,795	145,316	.05648	52,797	(.00968)	(9,047)	.00097	905	.04777	44,655	30.7
13	Adjusted Sales	8,165,680	1,731,373	-	494,940	-	(145,557)	-	10,717	-	360,100	20.8
14	Ammonia Producers											
15	GN-2	122,398	25,597									
16	GN-4	7,697	1,610									
17	Subtotal	130,095	27,207									
18	Total Sales	8,295,775	1,758,580	.05966	494,940	(.01755)	(145,557)	.00129	10,717	.04340	360,100	20.5
19	Exchange Revenue		3,469									
20	Total Revenue		1,762,049									

( ) Red Figure

1/ Does not include balancing account amortization from Table 2.
2/ Includes GS adjustment of -4828 M.th.

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TABLE 1-B

Southern California Gas Company

ADOPTED RATE DESIGN 2/

For the Period Beginning 1/1/80

(Excluding GEDA)

Line No.	Class of Service	Sales (Mth)	Revenue at 4/1/79 Rates (M$)	FCA Revenue ($/th)	FCA Revenue (M$)	SAM Revenue ($/th)	SAM Revenue (M$)	TCAC Revenue ($/th)	TCAC Revenue (M$)	Total Increase ($/th)	Total Increase (M$)	Total Increase %
1	Residential											
2	Lifeline 1/	1,977,777	453,912	.05251	103,853	(.01275)	(25,217)	.00131	2,591	.04107	81,227	17.9
3	Nonlifeline	1,289,023	279,784	.05828	75,124	(.01416)	(18,253)	.00145	1,869	.04557	58,740	21.0
4	Subtotal	3,266,800	733,696	.05479	178,977	(.01331)	(43,470)	.00137	4,460	.04285	139,967	19.1
5	Commercial-Industrial											
6	GN-1	1,051,459	242,985	.05480	57,620	(.01369)	(14,396)	.00140	1,477	.04251	44,701	18.4
7	GN-2	945,344	197,787	.06807	64,350	(.02599)	(24,569)	.00128	1,210	.04336	40,991	20.7
8	GN-3	706,322	147,849	.06807	48,079	(.02599)	(18,357)	.00128	904	.04336	30,626	20.7
9	GN-4	294,073	61,511	.06807	20,018	(.02599)	(7,643)	.00128	376	.04336	12,751	20.7
10	GN-5	1,096,982	229,436	.06807	74,672	(.02599)	(28,511)	.00128	1,404	.04336	47,565	20.7
11	Subtotal	4,094,180	879,568	--	264,739	--	(93,476)	--	5,371	--	176,634	20.1
12	Wholesale	934,795	145,316	.05480	51,227	(.00921)	(8,609)	.00094	883	.04653	43,501	29.9
13	Total Sales	8,295,775	1,758,580	.05966	494,943	(.01755)	(145,555)	.00129	10,714	.04340	360,102	20.5
14	Exchange Revenue		3,469									
15	Total Revenue		1,762,049									

(Red Figure)

1/ Includes GS Adjustment of -4828 Mth

2/ Does not include balancing account amortization from Table 2

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TABLE 2

Southern California Gas Company

ADOPTED BALANCING ACCOUNT AMORTIZATION 1/

First 6-month Period Subsequent to Effective Date of Order
(Excluding GEDA)

Line No.	Class of Service	Sales (Mth)	Revenue at 4/1/79 Rates (M$)	FCA Revenue ($/th)	FCA Revenue (M$)	SAM Revenue ($/th)	SAM Revenue (M$)	Total Increase ($/th)	Total Increase (M$)	Total Increase %
1	Residential									
2	Lifeline 2/	1,314,786	281,265	.02083	27,387	(.02262)	(29,740)	(.00179)	(2,353)	(0.8)
3	Nonlifeline	769,892	169,091	.02313	17,808	(.02513)	(19,347)	(.00200)	(1,539)	(0.9)
4	Subtotal	2,084,678	450,356	.02168	45,195	(.02355)	(49,087)	(.00187)	(3,892)	(0.9)
5	Commercial-Industrial									
6	GN-1	612,499	139,623	.02168	13,279	(.02485)	(15,218)	(.00317)	(1,939)	(1.4)
7	Wholesale	490,465	76,377	.02168	10,633	(.01697)	(8,325)	.00471	2,308	3.0
8	Total Sales	3,187,642	666,356	.02168	69,107	(.02278)	(72,630)	(.00110)	(3,523)	(0.5)
9	Exchange Revenue		1,578							
10	Total Revenue		667,934							

(Red Figure)

1/ To be added to adopted rate design in Table 1.

2/ Includes GS Adjustment of -3330 Mth.

XI - FINDINGS AND CONCLUSIONS

Findings of Fact

1. SoCal is entitled to additional revenues as estimated for the forecast period April 1, 1979 through March 31, 1980 in the amount of $356,578,000 consisting of a PGA increase of $564,048,000, a SAM decrease of $218,185,000, and a TCAC increase of $10,715,000.

2. The authorization of the above increase would offset increased gas costs and will not result in SoCal's exceeding its last authorized rate of return.

3. The level of franchise fees, uncollectible expenses, and company use of gas varies with the gas supply quantities SoCal receives for sale. SoCal's proposal to include allowance for F&U's in the computation of the SAM revenue requirements may be adopted at this time subject to further review in the next offset proceeding.

4. The revenue requirement reduction resulting from the application of SAM results from inaccuracy in the adopted sales forecast in the last general rate decision, which set rates for all classes of customers; if the sales forecast had been accurate, the apportionment of revenue requirement by that decision would tend to be similar to the result occurring if present SAM revenue requirement reductions are made on a uniform percent-of-revenue basis.

5. The residential rates proposed by the staff result in the recovery of costs and a return on investment devoted to serving the residential customer class.

6. It has not been demonstrated that the residential rate design proposed by CMA, and supported by GM, would result in increased conservation by the residential customer class.

7. The highest priced gas SoCal purchases serves the lowest priority customers; without such gas those users would have to use alternative fuels.

8. The revised gas rates adopted herein will provide SoCal"s customers with an economic signal as to the cost of energy.

9. Gas rates established close to the cost of alternate energy will provide incentive for commercial and industrial customers to maximize efficiency and conservation to their use of energy.

10. California agriculture is dependent upon the ammonia produced by the Ammonia Producers.

10. a. Ammonia Producers should be able to increase the price of ammonia to offset the increased cost of gas proposed in this proceeding.

10. b. The current economic problems of the Ammonia Producers result from the combined effects of the escalating gas costs and lagging prices for ammonia.

10. c. Increasing utility rates undoubtedly affect the competitive position of many businesses and industries in addition to the Ammonia Producers.

10. d. To isolate each such business and industry for separate analysis is beyond the capabilities of this agency.

10. e. Whether ammonia production is of sufficient importance to warrant special consideration not afforded to other industries is a decision of social policy best left to the Legislature.

11. In order to allow the Legislture additional time to consider this issue we will defer until January 1, 1980, rescission of the temporary supplemental service rate for the Ammonia Producers.

12. If the amortization of PGA and SAM under- or overcollections in the balancing account is made over a six-month period, as compared to the twelve-month period now employed, there will be less build up of large under- or overcollections.

13. Large under- or overcollections in the balancing accounts do not benefit SoCal or its ratepayers because a large undercollection impacts the utility's cash flow and an overcollection should quickly be passed on to benefit ratepayers.

14. SoCal's proposal to include estimated amounts for the period between the time of latest recorded entries in the accounts and the revision date to make the balancing account adjustment amount as current as possible should not be adopted in an offset proceeding such as this. This subject can more properly be addressed in a generic proceeding that analyzes the procedure to be used by all utilities in offsetting purchased gas costs.

15. SoCal's proposal to delete the TCAC procedure statement limiting billing factor adjustment to nonlifeline usage would provide flexibility in future rate design decisions.

16. SoCal's proposal to provide uniform descriptive text for all of its commodity rate adjustment procedures and locate them in Section H of the Preliminary Statement, together with a summary table setting forth base and effective rates and the various commodity rate adjustments included therein, would result in clearer, more easily understood tariffs.

17. SoCal's proposal that the PGA be calculated in therms instead of Mcf was acceptable to all parties.

18. SoCal's proposal that the PGA and GEDA balancing adjustments be modified to provide for compounding of interest as currently provided for in the SAM and TCAC proposals would result in consistency.

19. In computing the commodity rate adjustments, use of the latest month recorded amounts available prior to the revision would result in keeping balancing account accruals at a level reflective of the most recent experience.

20. The staff's proposed allotment of the adopted increased revenue requirement to the various customer groups, modified to reflect the temporary continuation of present rates to the Ammonia Producers, is reasonable and should be adopted.

21. The commodity adjustments reflected to SAM should be allocated to customer classes on the basis of a uniform percentage of revenues rather than to those customer classes whose recorded sales differed substantially from the adopted sales estimates.

22. The increases in rates and charges authorized herein are reasonable and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

23. Proposed FERC regulations to carry out incremental pricing provisions of the NGPA use a multi-tier approach, basing alternate fuel cost ceilings on the cost of No. 2 oil, No. 6 low sulfur oil, and No. 6 high sulfur oil in the relevant region.

24. The Commission has adopted a policy of two-tier alternate fuel cost pricing (based on No. 2 and No. 6 oil) for PG&E.

25. Since there is an immediate need for the rate relief authorized herein the following order should be effective the date of signature.

Conclusions of Law

1. To establish a special rate on a continuing basis for the Ammonia Producers would require us to place undue reliance upon market fluctuations in the price of ammonia.

2. SoCal's proposal to provide uniform descriptive test for all of its commodity rate adjustment procedures and locate them in Section H of the Preliminary Statement, together with a summary table setting forth base and effective rates and the various commodity rate adjustments included therein, is reasonable and should be adopted.

3. SoCal's proposal that the PGA be calculated in therms instead of Mcf is reasonable and should be adopted.

4. SoCal's proposal that the PGA and GEDA balancing adjustments be modified to provide for compounding of interest as currently provided for in SAM and TCAC proposals is reasonable and should be adopted.

5. SoCal's proposal to include allowances for F&U's in the computation of the SAM revenue requirements should be adopted at this time subject to further review in the next offset proceeding.

6. SoCal's proposal to delete the TCAC procedure statement limiting billing factor adjustment to nonlifeline usage is reasonable and should be adopted.

7. In computing the commodity rate adjustments, the latest month recorded amounts available prior to the revision date should be used.

8. The staff's proposed allotment of the adopted increased revenue requirement among the various customer groups, modified to reflect the temporary retention of present rates to the Ammonia Producers, is reasonable and should be adopted.

9. The commodity adjustments reflected to SAM should be allocated to customer classes on the basis of a uniform percentage of revenues rather than to those customer classes whose recorded sales differed substantially from the adopted sales estimates.

10. The increases in rates and charges authorized herein are reasonable and the present rates and charges, insofar as they differ from those precribed herein, are for the future unjust and unreasonable.

11. The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southern California Gas Company (SoCal) is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. SoCal is authorized to modify the Preliminary Statement portion of the tariff consistent with the charges found reasonable by the above Conclusions of Law.

3. SoCal shall:

(a) Undertake and complete a study of the alternate fuel burning capabilities and practices of its industrial customers within sixty days from the effective date of this order.

(b) File with the Commission's Gas Branch on a quarterly basis a current report on alternative fuel prices in its service territory, including but not limited to the delivered price per barrel, lot size, BTU, and sulfur content, the first filing to be made by November 15, 1979.

H-6

(c) In the next purchased gas expense offset proceeding, present a proposal for separate rate schedules for service to customers with No. 2 and No. 6 alternative fuel capability.

4. SoCal shall initiate the formation of a committee under the general case for SAM, C.10261, to develop consistent balancing account procedures for all gas utilities. This is in view of the dispartiy in procedures among the various gas utilities utilizing SAM balancing accounts. This committee shall consist of representatives of the gas utilities and Commission staff and shall meet within sixty days from the effective date of this order.

The effective date of this order is the date hereof.

Dated SEP 12 1979, at San Francisco, California.

I will file a concurrence & dissent
Claire Dedrick

I concur in part and dissent in part
I will file a written concurrence and dissent
Vernon L. Sturgeon

John E. Bryson
President
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Leonard M. Grimes Jr.
Commissioners

Southern California Gas Company

FIRST 6-MONTH PERIOD SUBSEQUENT TO EFFECTIVE DATE OF ORDER

1. Statement of Rates (¢ per therm).

Type of Service	Base 1/ Commodity Rates	PGA	SAM	GEDA	TCAC	Effective Commodity Rates
Residential (GR, GM & GS)						
Lifeline	16.387	7.592	(3.635)	.257	.135	20.736
Nonlifeline						
First Block	20.487	8.434	(4.041)	.257	.152	25.289
Excess	25.887	8.434	(4.041)	.257	.152	30.689
Nonresidential						
GN-1	22.025	7.647	(3.854)	.257	.140	26.215
GN-2 2/	20.913	6.807	(2.599)	.257	.128	25.506
GN-3	20.913	6.807	(2.599)	.257	.128	25.506
GN-4 2/	20.913	6.807	(2.599)	.257	.128	25.506
GN-5	20.913	6.807	(2.599)	.257	.128	25.506
Wholesale						
G-60	14.558	7.647	(2.618)	.257	.094	19.938
G-61						
Regular	14.595	7.647	(2.618)	.257	.094	19.975
Peaking	16.600	7.647	(2.618)	.257	.094	21.980

1/ As of April 1, 1979 per Decision No. 90105.

2/ Ammonia Producers (Temporary Supplemental Service).

GN-2, GN-4	20.913	0	0	.257	0	21.170

(Red Figure)

2. Applicants effective commodity rates are changed to the level or extent shown in this appendix. Schedule G-30 rates to be increased commensurately with Schedule GN-1.

3. Applicants customer charges and demand charges are unchanged.

A.58724

Southern California Gas Company

SECOND 6-MONTH PERIOD SUBSEQUENT TO EFFECTIVE DATE OF ORDER

1. Statement of Rates (¢ per therm).

Type of Service	Base 1/ Commodity Rates	PGA	SAM	GEDA	TCAC	Effective Commodity Rates
Residential						
Lifeline	16.387	5.509	(1.373)	.257	.135	20.915
Nonlifeline						
First Block	20.487	6.121	(1.528)	.257	.152	25.489
Excess	25.887	6.121	(1.528)	.257	.152	30.889
Nonresidential						
GN-1	22.025	5.479	(1.369)	.257	.140	26.532
GN-2 2/	20.913	6.807	(2.599)	.257	.128	25.506
GN-3	20.913	6.807	(2.599)	.257	.128	25.506
GN-4 2/	20.913	6.807	(2.599)	.257	.128	25.506
GN-5	20.913	6.807	(2.599)	.257	.128	25.506
Wholesale						
G-60	14.558	5.479	(.921)	.257	.094	19.467
G-61						
Regular	14.595	5.479	(.921)	.257	.094	19.504
Peaking	16.600	5.479	(.921)	.257	.094	21.509

1/ As of April 1, 1979 per Decision No. 90105.

2/ Ammonia Producers (Temporary Supplemental Service)

GN-2, GN-4	20.913	0	0	.257	0	21.17

(Red Figure)

2. Applicants effective commodity rates are changed to the level or extent shown in this appendix. Schedule G-30 rates to be increased commensurately with Schedule GN-1.

3. Applicants customer charges and demand charges are unchanged.

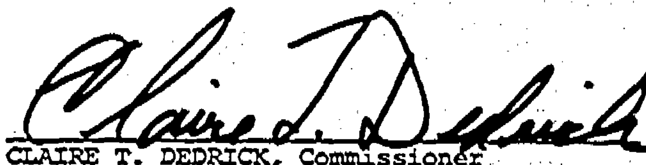
A. 58724, Decision No. 90822

COMMISSIONER CLAIRE T. DEDRICK, concurring:

I concur in part and dissent in part.

It is reasonable to ask the legislature to decide if the Ammonia industry should be given priority treatment. However, we should give the companies a reasonable time period in which to seek legislation. The majority feels that January 1, 1980 is adequate. My own experience with the legislature makes me believe that that is too little time.

The minimum period, I think, would be March 1, and even that would require an urgency statute.



CLAIRE T. DEDRICK, Commissioner

San Francisco, California

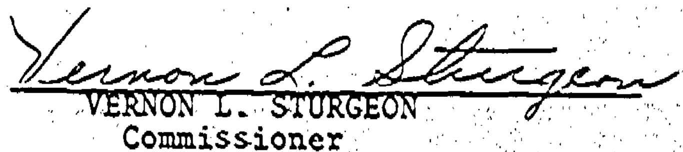
September 12, 1979

A. 58724

COMMISSIONER VERNON L. STURGEON, Dissenting

I concur in part and dissent in part. The best arguments against the position taken by the Commission today with respect to the plight of the Ammonia Producers are the specific findings that were made by the Administrative Law Judge who heard the extensive evidence on this issue. I have attached those to this dissent.

San Francisco, California
September 12, 1979



VERNON L. STURGEON
Commissioner

8. The revised gas rates adopted herein will provide SoCal's customers with an economic signal as to the cost of energy.

9. Gas rates established close to the cost of alternate energy will provide incentive for commercial and industrial customers to maximize efficiency and conservation in their use of energy.

10. The Ammonia Producers are unique and different from SoCal's other customers and customer classes on the following bases:

a. They are the two largest customers served by SoCal on Schedules GN-1 through GN-4.

b. They are the only customers on SoCal's system that utilize natural gas as feedstock to produce a product in competition with foreign competitors.

c. They are the only customers for whom the cost of gas represents a major portion of the product cost.

d. They receive gas directly from transmission lines 24 hours a day, seven days a week, all year long, except when the plant is shut down for maintenance in January, the month of SoCal's greatest demand.

e. They produce a product whose absence can have a pronounced adverse effect on the general economic well-being of the State as a whole.

11. The temporary continuance of present rates to the Ammonia Producers to retain them on the system would result in the margin between revenues received and the average cost of gas redounding to the benefit of the system ratepayers as a whole.

12. If the amortization of PGA and SAM under- or overcollections in the balancing account is made over a six-month period, as compared to the twelve-month period now employed, there will be less buildup of large under- or overcollections.

13. Large under- or overcollections in the balancing accounts do not benefit SoCal or its ratepayers because a large undercollection impacts the utility's cash flow and an overcollection should quickly be passed on to benefit ratepayers.